Foundations of MARKETING
Seventh Edition

Chapter 14

Retailing, Direct Marketing, and Wholesaling

Pride | Ferrell

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Learning Objectives

14-1 Describe the purpose and function of retailers in the marketing channel.

14-2 Identify the major types of retailers.

14-3 Explain strategic issues in retailing.

14-4 Recognize the various forms of direct marketing, direct selling, and vending.

14-5 Describe franchising and its benefits and weaknesses.

14-6 Explain the nature and functions of wholesalers.

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Retailing

- **Retailing** - all transactions in which the buyer intends to consume the product through personal, family or household use
- **Retailer** – an organization that purchases products for the purpose of reselling them to ultimate consumers

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Retailers

- Add value for customers
- Enhance consumers' perception of the value of products
- Facilitate comparison shopping
- Enhance product value
- Add significant value to the supply chain

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General-Merchandise Retailer

General-merchandise retailer - offers a variety of product lines that are stocked in considerable depth

- Considerable variations in
  - Types of product offerings
  - Mixes of customer services
  - Operating styles of retailers
- Several types of general-merchandise retailers

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General-Merchandise Retailer Department Stores

Department stores – large general-merchandise retail organizations characterized by a wide product mix and organized into separate departments to facilitate marketing efforts and internal management

- Considerable variations in
  - Types of product offerings
  - Mixes of customer services
  - Operating styles of retailers
- Several types of general-merchandise retailers

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Table 14.1 - General-Merchandise Retailers

Type of Retailer	Description	Examples
Department store	Large organization offering a wide product mix and organized into separate departments	Macy's, Sears, JCPenney
Discount store	Self-service, general-merchandise store offering brand-name and private-brand products at low prices	Walmart, Target, Kmart
Convenience store	Small, self-service store offering narrow product assortment in convenient locations	7-Eleven, Allsup's
Supermarket	Self-service store offering complete line of food products and some nonfood products	Kroger, Safeway, Publix, HEB
Superstore	Giant outlet offering all food and nonfood products found in supermarkets, as well as most routinely purchased products	Walmart Supercenters, SuperTarget
Hypermarket	Combination supermarket and discount store, larger than a superstore	Carrefour, Lulu
Warehouse club	Large-scale, members-only establishments combining cash-and-carry wholesaling with discount retailing	Sam's Club, Costco
Warehouse showroom	Facility in a large, low-cost building with large on-premises inventories and minimal service	IKEA

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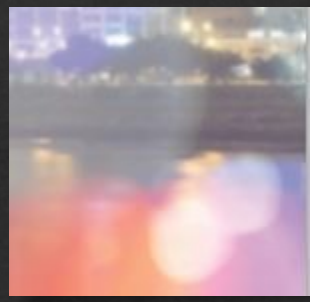
Discussion Point - Department Stores



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Department stores like Kohl's offer a wide variety of product lines.

Do you think online research on department store websites helps customers' in-store shopping experiences?

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General-Merchandise Retailer Discount Stores

Discount stores – self-service, general-merchandise outlets that offer brand-name and private-brand products at low prices

Discount stores

- Accept lower profit margins than conventional retailers in exchange for high sales volume
- Carry a wide, but carefully selected, assortment of products

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General-Merchandise Retailer
Convenience Stores

Convenience store – a small, self-service store open long hours with a narrow assortment of products, usually convenience items

- Usually open 24 hours a day and 7 days a week
- National chains
- Family-owned independent stores

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General-Merchandise Retailer Supermarkets

Supermarkets – large, self-service stores that carry a complete line of food products, along with some nonfood products

- Arranged by department for maximum efficiency in stocking and handling products
- Central checkout facilities
- Offer lower prices than smaller neighborhood grocery stores
- Usually provide free parking
- Provide additional services such as check cashing

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General-Merchandise Retailer Superstores

Superstores – giant retail outlets that carry food and nonfood products found in supermarkets, as well as most routinely purchased consumer products

- Combine features of discount stores and supermarkets
- Generally carry about four times as many items as supermarkets
- Usually have tall shelving to display entire assortments of products
- Offer additional services, such as dry cleaning, auto repair, check cashing, and bill paying

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General-Merchandise Retailer Hypermarkets

Hypermarkets – combine supermarket and discount store shopping in one location

- Larger than superstores
- Focus on low prices and vast selections
- 50% grocery products; 50% general merchandise
- Lease space for noncompeting businesses such as banks, optical shops, and fast-food restaurants

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General-Merchandise Retailer Warehouse Clubs

Warehouse clubs – large-scale, members-only establishments that combine features of cash-and-carry wholesaling with discount retailing

- Same types of products as discount stores, but in limited range of sizes and styles
- Offer a broad product mix
- Keep prices lower than supermarkets and discounts stores
- Offer very few services
- Keep advertising to a minimum
- Appeal to price-conscious consumers and small retailers unable to obtain wholesaling services from large distributors

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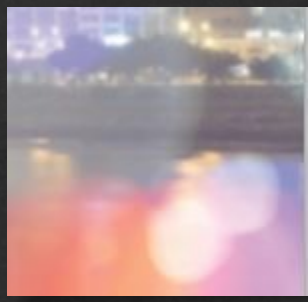
Discussion Point – Warehouse Clubs



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Costco is a warehouse club that has a wide product mix and limited depth.

What products do you believe are worth buying in bulk?

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General-Merchandise Retailer Warehouse Showrooms

Warehouse showrooms – retail facilities in large, low-cost buildings with large, on-premises inventories and minimal services

- Large, low-cost buildings
- Warehouse materials-handling technology
- Vertical merchandise displays
- Large on-premises inventories
- Minimal services

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Specialty Retailers

Specialty retailers do not sell specialty items. They offer substantial assortments in a few product lines.

- **Traditional specialty retailers** - carry a narrow product mix with deep product lines
- **Category killer** – concentrates on a major product category and competes on the basis of low prices and broad product availability
- **Off-price retailers** – buy manufacturers' seconds, overruns, returns, and off-season production ruins at below-wholesale prices for resale to consumers at deep discounts

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Discussion Point – Traditional Specialty Stores and Off-Price Specialty Stores

Source: Gap Inc.

Source: © Goran Bogicevic/Shutterstock.com

Banana Republic is a traditional specialty store, while Marshall's is an example of an off-price specialty retailer.

Where do you shop more often—at traditional specialty sores or at off-price specialty stores?

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Strategic Issues in Retailing

- Consumer purchases are influenced by social and psychological factors
- Retailers should
  - Make desired products available
  - Create stimulating shopping environments
  - Develop marketing strategies that increase patronage

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Location of Retail Stores

- Least flexible variable of the marketing mix
- Dictates the limited geographic trading area from which a store draws its customers
- Factors to be evaluated
  - Location of the firm’s target market and kind of products being sold
  - Availability of public transportation
  - Customer characteristics and competitors’ locations
  - Characteristics of the site – size, shape, and visibility
  - Compatibility with nearby retailers

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Discussion Point – Location of Retail Stores

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Victoria's Secret stores are usually located in regional malls, whereas Walmart stores are located in freestanding building in high-traffic areas.

Does location affect where you choice to shop?

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Types of Shopping Centers

- **Neighborhood shopping centers** – consist of several small convenience and specialty stores
- **Community shopping centers** – includes one or two department stores, some specialty stores, and convenience stores
- **Regional shopping centers** – usually have the largest department stores, widest product mixes, and deepest product lines of all shopping centers
- **Superregional shopping centers** – have the widest and deepest product mixes that attract customers from many miles away
- **Lifestyle shopping center** – open air and features upscale specialty, dining, and entertainment stores
- **Power shopping center** – combines off-price stores with category killers

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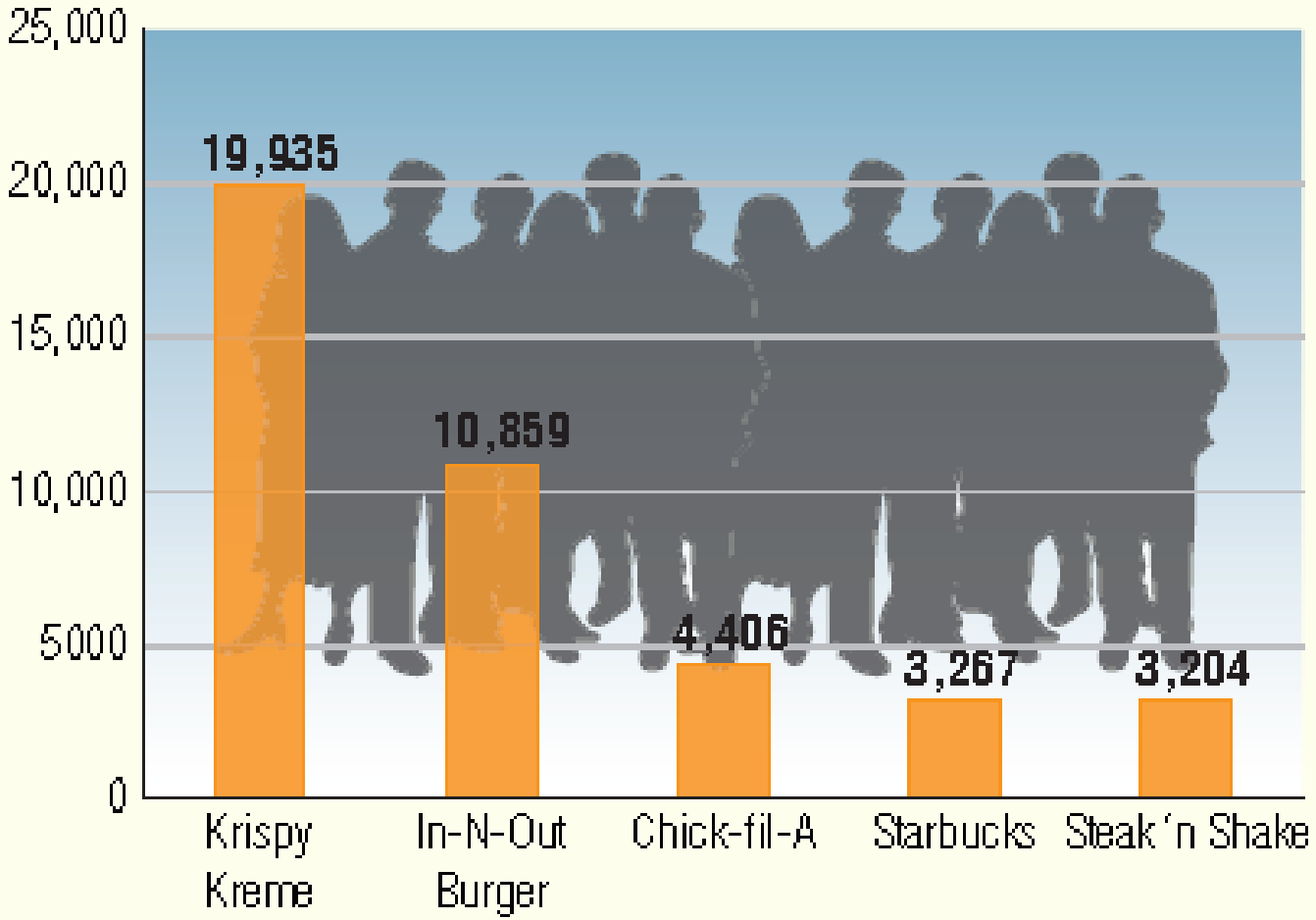
SNAPSHOT

Which Fast-Food Restaurants Have the Most Social Media Fans per Store?



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Retail Positioning

- **Retail positioning** - identify an unserved or underserved market segment and serving it through a strategy that distinguishes the retailer from others in the market segment
- Example - attracting time and cash-strapped consumers with convenient locations, layouts, and low prices

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Store Image

- Should appeal to its target market
- Store environment, merchandise quality, and service quality help create an image and position a retailer
- **Atmospherics** - physical elements in a store's design that appeal to consumers' emotions and encourage buying
- Factors used to influence customers
  - Music
  - Color
  - Complexity of layout
  - Merchandise presentation

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Discussion Point - Atmospherics

Source: White House Photo/Alamy

Atmospherics in restaurants can greatly influence customers' experiences. The owners of Olive Garden spend considerable resources on atmospherics such as fixtures, lighting, music, and furniture to favorably influence the customer experience and increase customer satisfaction.

What is your favorite restaurant? Are you influenced by the atmospherics in the restaurant?

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Category Management

- **Category management** - managing groups of similar, often substitutable products produced by different manufacturers
- Used by supermarkets to determine space for different products
- Required for developing collaborative supply-chain initiative which enhances customer value

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Direct Marketing

- **Direct marketing** - use of the telephone, Internet, and nonpersonal media to introduce products to customers
- Nonstore retailing - selling of products outside the confines of a retail facility
  - Accounts for an increasing percentage of total sales
  - Can occur through
    - Catalog marketing
    - Direct-response marketing
    - Telemarketing
    - Television home shopping
    - Online retailing

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Catalog Marketing

Catalog marketing – organization provides a catalog from which customers make selections and place orders by mail, telephone, or the Internet

- Advantages
  - Efficiency and convenience for customers
  - Lower costs for retailers
- Disadvantages
  - Inflexible
  - Provides limited service
  - Most effective for a selected set or products

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Discussion Point – Catalog Marketing

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IKEA uses catalog marketing to sell its products. IKEA also employs online marketing and has brick-and-mortar stores.

How often do you shop using catalogs? Are you satisfied with catalog shopping?

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Direct-Response Marketing

Direct-response marketing - retailer advertises a product and makes it available through mail, telephone, or online orders

- Has resulted in some products gaining widespread popularity
- Products must be priced above $20 to justify the advertising and distribution costs

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Telemarketing

Telemarketing – performance of marketing-related activities by telephone

- Generate sales leads
- Improve customer service
- Speeds up payments on past-due accounts
- Raise funds for nonprofit organizations
- Gather marketing data

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Television Home Shopping

Television home shopping - presents products to television viewers encouraging them to order through toll-free numbers and pay with a credit card

- Products can be demonstrated easily.
- An adequate amount of time can be spent showing the product so viewers are well informed
- Customers can shop at their convenience and in the comfort of their homes.

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Online Retailing

Online retailing - makes products available to buyers through computer connections

- Consumers can
  - Access multiple channels available to obtain goods and services
  - Perform a wide variety of shopping-related tasks
- Serious concern about identify and credit card theft

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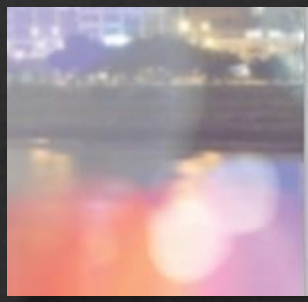
Discussion Point - Online Retailing



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Amazon sells millions of products online, which can be grouped into 35 different categories.

Approximately what percent of all your purchases are processed online?

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Direct Selling

Direct selling – the marketing of products to ultimate consumers through face-to-face sales presentations at home or in the workplace

- Contacts with buyers are prearranged
- Advantages
  - Gives the marketer an opportunity to demonstrate the product where it would be used
  - Personal attention to the customer
- Disadvantages
  - Expensive form of retailing
  - Negative views from customers because of unscrupulous and fraudulent practices

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Discussion Point - Direct Selling

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Mary Kay engages in direct selling through its consultants. The company also markets products online.

Have you been contacted by a direct-selling consultant or invited to a hosted party view merchandise in a group setting?

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Automatic Vending

Automatic vending - use of machines to dispense products

- Most impersonal form of retailing
- Accounts for a very small minority of all retail sales
- Provides efficient and continuous service to consumers in areas of heavy foot traffic
- Advantages of small amount of space and no sales personnel are offset by high costs of equipment and maintenance

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Franchising

Franchising - supplier grants a dealer the right to sell products in exchange for some type of consideration

- Franchiser receives a percentage of sales for supplying
  - Equipment and buildings
  - Management know-how and marketing assistance
- Franchisee
  - Supplies labor and capital
  - Operates the franchised business and agrees to abide by the provisions of the franchise agreement

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Table 14.2 – Top U.S. Franchisers and Their Startup Costs

Rank	Franchise and Description	Startup Costs
1	**Hampton Hotels** Mid-priced hotels	$3,700,000–$13,500,000
2	**Anytime Fitness** Fitness center	$78,700–$371,200
3	**Subway** Submarine sandwiches and salads	$116,600–$263,200
4	**Jack in the Box** Burgers	$1,300,000–$2,400,000
5	**Supercuts** Hair salon	$113,800–$233,600
6	**Jimmy John's Gourmet Sandwiches**	$330,500–$519,500
7	**Servpro** Insurance/disaster restoration and cleaning	$138,600–$187,200
8	**Denny's Inc.** Full-service family restaurant	$1,300,000–$2,600,000
9	**Pizza Hut, Inc.** Pizza, pasta, and wings	$297,000–$2,100,000
10	**7-Eleven Inc.** Convenience store	$37,200–$1,600,000

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Advantages of Franchising

For the Franchisee

- Aids in starting a business with limited capital while receiving guidance and advice from the franchiser
- Franchises are more successful than independently-owned businesses
- Guidance and advice from the franchiser at little or no cost

For the Franchiser

- Gains product distribution without the high cost of operating its own outlets
- The franchisee is highly motivated to succeed
- Success of the franchise means higher income for the franchiser

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Disadvantages of Franchising

For the Franchisee

- Franchiser dictates many aspects of the business and collect a percentage of the sales
- Franchise agreements are not always uniform

For the Franchiser

- Gives up a certain amount of control
- Individual establishments may not be operated to the franchiser's standards

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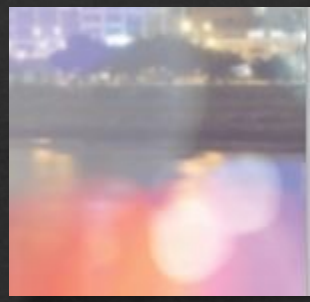
Discussion Point - Franchising



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7-Eleven is a franchise, so individual stores are owned and managed by the franchisee.

Do you notice differences from one 7-Eleven location to the next? Do you have the same impression with different franchises?

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Wholesaling

Wholesaling – all transactions in which products are bought for resale, making other products, or in general business operations

Wholesaler - individual or organization that sells products through wholesaling

- Activities not limited to goods
- Service companies, such as financial institutions, use active wholesale networks
- Sometimes play a key role in supply-chain management decisions

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Wholesale Services

- To producers
  - Serve as an extension of the producer’s sales force
  - Act as a conduit of information
  - Provide financial assistance
  - Reduce the producer’s expenses and inventory
  - A source of working capital
- To retailers
  - Assist with the distribution component
  - Help retailers select inventory
  - Help look for and coordinate supply sources
  - Providing consistent, wide-range of products

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Types of Wholesalers

- Classification criteria
  - Independently owned or owned by a producer
  - Whether or not products are owned
  - Range of services provided
  - Breadth and depth of product lines
- Types of wholesaling establishments
  - Merchant wholesalers
  - Agents and brokers
  - Manufacturers’ sales branches and offices

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Merchant Wholesalers

- **Merchant wholesalers** - independently owned businesses
  - Take title to goods and assume ownership risks
  - Buy and resell products to other wholesalers, business customers or retailers
  - Involved in packaging and developing private brands
- Provide market coverage and make sales contacts
- Furnish customer support and handle orders
- Collect market information and store inventory

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Full-Service Wholesalers

Full-service wholesalers - perform the widest range of wholesaling functions

- Customers rely on them for
  - Product availability
  - Suitable product assortments
  - Breaking large shipments into smaller ones
  - Financial assistance, technical advice, and service
- Handle either consumer or business products
- Provide various marketing services to their customers

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Full-Service Wholesaler Categories

- **General-merchandise wholesalers** - carry a wide product mix, but offer limited depth within product lines
- Limited-line wholesalers - carry only a few product lines but offer an extensive assortment of products within those lines
- **Specialty-line wholesalers** - offer the narrowest range of products
  - Single product line or a few items within a product line
  - **Rack jobbers** - own and maintain display racks in stores

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Discussion Point – Merchant Wholesaler

GRAINGER
GRAINGER
GRAINGER

Limited Service Wholesalers

Limited service wholesalers - provide fewer marketing services than full-service wholesalers and specialize in just a few functions

- Take title to merchandise but do not provide all the services
- Charge lower rates and have smaller profit margins than full-service wholesalers
- Important in the distribution of specialty foods, perishable items, and construction materials

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Table 14.3 - Services that Limited-Service Wholesalers Provide

	Cash-and-Carry	Truck	Drop Shipper	Mail Order
Physical possession of merchandise	Yes	Yes	No	Yes
Personal sales calls on customers	No	Yes	No	No
Information about market conditions	No	Some	Yes	Yes
Advice to customers	No	Some	Yes	No
Stocking and maintenance of merchandise in customers' stores	No	No	No	No
Credit to customers	No	No	Yes	Some
Delivery of merchandise to customers	No	Yes	No	No

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Types of Limited Service Wholesalers

- **Cash-and-carry wholesalers - c**ustomers pay cash and furnish transportation
- **Truck wholesalers - t**ransport products directly to customers for inspection and selection
- **Drop shippers - t**ake title to goods and negotiate sales but never actually take possession of products
- **Mail-order wholesalers -** use catalogs instead of a sales force to sell products to retail and business buyers

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Agents and Brokers

- **Agents** – intermediaries that represent either buyers or sellers on a permanent basis
- **Brokers** – intermediaries that bring buyers and sellers together temporarily
- Enable manufacturers to
  - Expand sales when resources are limited
  - Benefit from the services of a trained sales force
  - Hold down personal selling costs

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Table 14.4 - Services that Agents and Brokers Provide

	Manufacturers' Agents	Selling Agents	Commission Merchants	Brokers
Physical possession of merchandise	Some	Some	Yes	No
Long-term relationship with buyers or sellers	Yes	Yes	Yes	No
Representation of competing product lines	No	No	Yes	Yes
Limited geographic territory	Yes	No	No	No
Credit to customers	No	Yes	Some	No
Delivery of merchandise to customers	Some	Yes	Yes	No

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Types of Agents and Brokers

- **Manufacturers' agents** - independent intermediaries that represent two or more sellers and offer complete product lines to customers
- **Selling agents** - market either all of a specified product line or a manufacturer's entire output
- **Commission merchants** - receive goods on consignment from local sellers and negotiate sales in large, central markets

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Manufacturers' Sales Branches and Offices

- Resemble merchant wholesalers' operations
- **Sales branches** - sell products and provide support services to the manufacturer's sales force
  - Located where large customers are concentrated and demand is high
- **Sales offices** - provide services normally associated with agents
  - Do not carry inventory
  - Reach customers more effectively by performing wholesaling functions themselves

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